

## Message Text

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43

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FM AMEMBASSY KINGSTON

TO SECSTATE WASHDC PRIORITY 7284

INFO AMEMBASSY CARACAS

C O N F I D E N T I A L KINGSTON 1221

EO 11652: GDS

TAGS: EMIN, JM

SUBJECT: BAUXITE: NEWS STORY MAY SIGNAL GOVERNMENT INTENTIONS

1. ON SUNDAY, MARCH 30 THE DAILY NEWS, WHICH IS WELL WIRED INTO THE GOVERNMENT ON BAUXITE MATTERS, PUBLISHED A NEWS STORY HEADLINED "GOVERNMENT TO ACQUIRE 51 PERCENT STAKE IN REYNOLDS". THE SOTRY REPORTED THAT THE GOJ AND THE REYNOLDS METAL COMPANY ARE "ON THE VERGE OF FINALIZING AN AGREEMENT BASED ON LOCAL PARTICIPATION IN REYNOLDS JAMAICA MINES". THE REPORT INDICATED THAT THE AGREEMENT WOULD BE SIMILAR TO THAT CONCLUDED WITH KAISER LAST NOVEMBER WITH REGARD TO BOTH PARTICIPATION AND LAND PURCHASE. THE STORY WENT ON TO SAY "LOCAL BAUXITE INDUSTRY SOURCES HAVE DISCOUNTED INTERNATIONAL PRESS REPORTS THAT THE AGREEMENT WITH REYNOLDS WILL INVOLVE THE COMPANY IN A BAUXITE AGREEMENT NOW BEING WORKED OUT BETWEEN JAMAICA AND VENEZUELA". THE PAPER FURTHER SAID THAT THOUGHT WAS BEING GIVEN TO REYNOLDS BUILDING AN ALUMINA PLANT IN JAMAICA TO SUPPLY A VENEZUELAN SMELTER, BUT UNDER THE VENEZUELAN-JAMAICAN AGREEMENT BAUXITE (RATHER THAN ALUMINA) WILL BE SOLD DIRECTLY TO VENEZUELA. THE STORY ENDS BY INDICATING THAT TALKS WITH ALPART AND ALCAN WILL BE UNDERTAKEN AFTER AGREEMENT IS REACHED WITH REYNOLDS, WHILE ALCOA WILL BE LEFT FOR LAST. ACCORDING

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TO THE REPORT, THE GOVERNMENT HOPES TO CONCLUDE ALL OF

THESE NEGOTIATIONS BY JUNE OF THIS YEAR.

2. COMMENT: AS WE UNDERSTAND IT, REYNOLDS AND THE GOJ FAILED TO INITIAL A HEADS OF AGREEMENT IN FEBRUARY BECAUSE PM MANLEY INSISTED AT THE LAST MINUTE THAT REYNOLDS COMMIT ITSELF TO A LARGE INVESTMENT IN ALUMINA REFINING FACILITIES IN JAMAICA AS PART OF THE AGREEMENT. MANLEY APPEARED TO HAVE TWO MOTIVES IN MAKING THIS LAST-MINUTE CONDITION. ONE WAS TO ASSURE THAT THERE WOULD BE AN ADEQUATE SUPPLY OF JAMAICAN ALUMINA TO OFFER THE VENEZUELAN IN HIS ONGOING NEGOTIATIONS WITH THEM OVER BAUXITE, ALUMINA, AND PETROLEUM. THE OTHER WAS HIS RELUCTANCE TO OFFER THE SAME BREAK ON THE LEVY TO REYNOLDS THAT KAISER HAD ACHIEVED, IN THE ABSENCE OF REYNOLDS MEETING THE SAME CONDITIONS THAT KAISER HAD MET, I E SUBSTANTIAL NEW INVESTMENT. IN OUR VARIOUS CONVERSATIONS WITH KEY JAMAICAN FIGURES IN THE BAUXITE NEGOTIATIONS WE HAVE EMPHASIZED THE IMPORTANCE OF MOVING AHEAD WITH THE NEGOTIATIONS WITH THE MAJOR BAUXITE COMPANIES, AND QUESTIONED THE WISDOM OF PUTTING ONE OF JAMAICA'S MAJOR BAUXITE CUSTOMERS, KAISER, AT A COMPETITIVE ADVANTAGE WITH RESPECT TO ITS OTHER CHIEF BAUXITE CUSTOMER, REYNOLDS, EVEN THOUGH THEIR INVESTMENT INTENTIONS MAY BE DIFFERENT

3. SINCE WE BELIEVE NO ACTIVE CONVERSATIONS ARE TAKING PLACE BETWEEN THE GOJ AND REYNOLDS, OR ANY OF THE COMPANIES, AT THIS TIME, THE ABOVE NEWS STORY COULD BE READ AS A SIGNAL THAT THE GOJ IS PREPARED TO WITHDRAW THE CONDITIONS THAT PREVENTED AGREEMENT WITH REYNOLDS AT THE LAST MINUTE. WE PRESUME THE JAMAICAN-VENEZUELAND AGREEMENT INDICATED IN THE STORY REFERS TO CONVERSATIONS HELD DURING THE BRIEF VISIT OF VENEZUELAND PRESIDENT CARLOS ANDRES PEREZ TO KINGSTON LAST WEEK. HEWITT

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